

BEFORE THE PUBLIC DISCLOSURE COMMISSION
OF THE STATE OF WASHINGTON

IN RE COMPLIANCE)	PDC CASE NO: 02-281
WITH RCW 42.17)	
)	Report of Investigation
Permanent Offense PAC, Permanent)	
Offense, Incorporated, Traffic)	
Improvement Initiative Committee, and)	
Tim Eyman)	
)	
Respondents)	
)	

I.

BACKGROUND

- 1.1 On February 6, 2001, Vicki Rippie, Executive Director of the Public Disclosure Commission (PDC) filed a complaint against Permanent Offense (a political committee) (hereinafter PAC), Permanent Offense, Incorporated (a for-profit entity) (hereinafter INC), Traffic Improvement Initiative Committee (a political committee) and Tim Eyman. **See Exhibit #1.** The complaint directed PDC staff to investigate whether:
- The respondents failed to properly report campaign expenditures, including the purpose of those expenditures, in violation of RCW 42.17.080 and 42.17.090;
 - The respondents concealed the fact that campaign funds were expended to pay Mr. Eyman compensation for work he performed on behalf of Permanent Offense PAC, in violation of RCW 42.17.120;
 - The respondents used campaign funds to pay for Mr. Eyman's personal expenses, in violation of RCW 42.17.125;

- Permanent Offense, INC is an unregistered political committee that failed to comply with the provisions of RCW 42.17, in violation of RCW 42.17.040, 42.17.080 and 42.17.090 or whether Permanent Offense, INC is part of an existing political committee (Permanent Offense PAC) and whether Permanent Offense PAC failed to report the activities of Permanent Offense, INC in violation of RCW 42.17.080 and 42.17.090.

1.2 On February 13, 2001, Richard A. Smith and Knoll Lowney, two attorneys representing Permanently Offended, filed a citizen's action (45-day letter) in accordance with RCW 42.17.400 with the Office of the Attorney General and with the King County Prosecutor's Office, the Snohomish County Prosecutor's Office, and the Thurston County Prosecutor's Office. **See Exhibit #2.** Mr. Smith and Mr. Lowney filed two 45-day citizen action letters. The first 45-day letter was filed against Tim Eyman, Karen Eyman, Suzanne Karr, Permanent Offense (a political committee), Permanent Offense, INC (a for-profit Washington corporation) and Traffic Improvement Initiative Committee. The second 45-day letter added respondents Monte Benham, Mike Fagan, and Leo (Jack) Fagan. Both letters alleged violations of RCW 42.17 as follows:

- That the respondents failed to file timely and accurate reports to the PDC for the activities of Permanent Offense PAC and Traffic Improvement Initiative Committee, in violation of RCW 42.17.080 and 42.17.090;
- That the respondents made expenditures in such a manner so as to effect concealment, in violation of RCW 42.17.120; and
- That the respondents engaged in the personal use of campaign contributions, in violation of RCW 42.17.125.

1.3 On February 15, 2001, PDC staff was officially notified by the Office of the Attorney General that they were referring the citizen's action letters to the PDC for review and inclusion in staff's ongoing investigation.

1.4 From 1999 to present, a number of initiatives were filed and supported by Tim Eyman, Suzanne Karr, Monte Benham, Jack Fagan, and/or Mike Fagan. A history of those initiatives and the political committees formed to support those committees follows:

1999-- \$30 License Tab Initiative (I-695):

In 1999, Initiative 695 was on the November 1999 general election ballot. The \$30 License Tab Initiative, if approved, would reduce motor vehicle excise tax and licensing fees to a flat fee of \$30 per year, and require a public vote on all future tax increases.

During the 1999 campaign, the \$30 License Tab Initiative raised campaign contributions totaling \$439,382.56, and made expenditures totaling \$284,909.72. Suzanne Karr was the treasurer and Tim Eyman was the campaign manager according to the Committee Registration Statements (PDC Form C-1pc) filed by the \$30 License Tab Initiative. **See Exhibit #3.**

Initiative 695 was approved by a margin of 58% to 42%. There were legal challenges to the initiative, and the initiative was overturned by the Washington State Supreme Court because the initiative language covered more than one subject matter. The Washington State Legislature enacted legislation reducing the motor vehicle excise tax and licensing fees to \$30 per year per vehicle.

2000--Traffic Improvement Initiative (I-745):

In 2000, Initiative 745 was on the November 2000 general election ballot. I-745 would have required 90% of all highway construction funds to be designated for roads, with the remaining 10% to be used for transit and other uses.

During the 2000 campaign, Traffic Improvement Initiative Committee raised campaign contributions totaling \$1,202,139.22, and made campaign expenditures totaling \$1,202,263.54. Washington Citizens for Congestion Relief was another political committee supporting Initiative 745 during 2000. Washington Citizens for Congestion Relief was a political committee funded largely by the Asphalt Paving Association that made in-kind contributions to Traffic Improvement Initiative Committee totaling more than \$1,000,000 to pay for signature gathering expenses, television, radio and direct mail advertising, and other expenses. Those expenditures by Washington Citizens for Congestion Relief, were reported as in-kind contributions by the Traffic Improvement Initiative Committee.

Suzanne Karr was the treasurer for I-745 and Tim Eyman was the campaign manager according to the Committee Registration Statements (PDC Form C-1pc) filed by Traffic Improvement Initiative Committee. **See Exhibit #4.** I-745 measure was defeated by voters in 2000 by 58% to 42%.

1999-2000 Permanent Offense (a political committee):

Legal challenges to Initiative 695 in late 1999 and early 2000 led to the formation of Permanent Offense PAC (a political committee). Suzanne Karr was the treasurer for Permanent Offense PAC and Tim Eyman was the campaign manager according to the C-1pc filed. **See Exhibit #5.**

2000—Initiatives 710,711,722

Permanent Offense PAC supported initiatives 710 and 711 as well as 722 (Son of 695) during the 2000 election cycle. Initiative 722 was the only initiative that Permanent Offense PAC supported that qualified for the ballot.

Initiative 722 was approved by the voters, but was overturned by the Washington State Supreme Court because the initiative language covered more than one subject matter. During the 2000 campaign, Permanent Offense PAC raised campaign contributions totaling \$620,271.09, and made campaign expenditures totaling \$544,293.40 in support of Initiative 722.

The \$620,271.09 in reported contributions for calendar year 2000 for Permanent Offense PAC included \$154,472.84 of surplus funds carried over from the \$30 License Tab Initiative campaign in 1999. Suzanne Karr was the treasurer and Tim Eyman was the campaign manager according to the Committee Registration Statement (PDC Form C-1pc).

2001—Property Tax Limitations (I-747)

In 2001, Initiative 747 was supported by Permanent Offense PAC and qualified for the November 2001 general election ballot. Initiative 747, if approved, would require state and local governments to limit property tax increases to 1% per year, unless an increase greater than the 1% limit is approved by voters at an election.

In 2001, Initiative 747 was approved by the voters. During the 2001 campaign, Permanent Offense PAC raised campaign contributions totaling \$693,354.09, and made campaign expenditures totaling \$663,308.07 in support of I-747. The \$693,354.09 in reported contributions for calendar year 2001 for Permanent Offense PAC included \$84,323.91 in surplus funds carried over from Permanent Offense PAC from the I-722 campaign. An amended C-1pc was filed February 10, 2001, by Permanent Offense PAC listing Karen Eyman as the new treasurer, and listing Tim Eyman as the campaign manager. **See Exhibit #6.**

2002—\$30 license tabs (I-776)

In 2002, Initiative 776 is being supported by Permanent Offense PAC and the committee is currently attempting to qualify this initiative for the November 2002 general election ballot. Initiative 776, if approved, would require license tab fees to be \$30 per year for motor vehicles and light trucks, and certain local-option vehicle excise taxes and fees used for roads and transit would be repealed.

On February 15, 2002, an amended C-1pc was filed for Permanent Offense PAC listing Monte Benham as the Campaign Manager or Media Contact and Royce Benham as the Treasurer. Jack Fagan, Mike Fagan and Tim Eyman are listed as the PAC's Officers. **See Exhibit #7.**

II.

SCOPE

- 2.1 Public Disclosure Commission Campaign Reports (PDC Forms C-3 & C-4) submitted by Permanent Offense PAC were reviewed for the period December 1, 1999 - present.
- 2.2 Public Disclosure Commission Campaign Reports (PDC Forms C-3 & C-4) submitted by Traffic Improvement Initiative Committee (Traffic Improvement Initiative) were reviewed for the period December 1, 1999 –November 30, 2000.

- 2.3 Five boxes of documents were delivered by Suzanne Karr on February 25, 2002, for the Traffic Improvement Initiative, Permanent Offense PAC, Permanent Offense, Incorporated, and the \$30 License Tab Initiative. **See exhibit #8, inventory spreadsheet.**
- 2.4 Two boxes of subpoenaed documents were delivered by IKON Legal Services on March 5, 2002, from William Glueck for Tim and Karen Eyman, and for Permanent Offense, INC.
- 2.5 One box of documents and emails were delivered on March 8, 2002, by John White, representing Permanent Offense PAC, Monte Benham, and Jack Fagan and Mike Fagan.
- 2.6 Bank statements, invoices and other information were delivered on March 27, 2002, by William Glueck, representing Tim and Karen Eyman and Permanent Offense, INC
- 2.7 Three compact discs containing emails and other documents from computers used by Tim Eyman were delivered on March 28, 2002, by William Glueck.
- 2.8 Invoices and related documents were received from Data Resources on March 29, 2002. Data Resources is a vendor primarily used by the \$30 License Tab Initiative Committee, Permanent Offense PAC, and the Traffic Improvement Initiative Committee to print and mail political advertisements, fund raising letters, petitions, and other brochures.
- 2.9 Invoices and related documents were received from Kelly Parke on April 1, 2002. Kelly Parke is a consultant used by Permanent Offense PAC, the Traffic Improvement Initiative Committee, and Insignia Corporation (Tim Eyman's personal business), who provided documents pursuant to a PDC subpoena.
- 2.10 Two compact discs containing emails and other documents from computers used by Monte Benham were delivered on April 2, 2002, by John White.
- 2.11 As part of this investigation, the following interviews were conducted:
 - On February 12, 2002, Monte Benham was interviewed under oath at the offices of the PDC.
 - On February 12, 2002, Leo (Jack) Fagan was interviewed under oath at the offices of the PDC.

- On February 12, 2002, Mike Fagan was interviewed under oath at the offices of the PDC.
- On March 8, 2002, Tim Eyman was interviewed under oath at the offices of the PDC in Olympia.
- On March 12, 2002, Suzanne Karr was interviewed under oath at the offices of the PDC in Olympia.
- On March 22, 2002, Karla Grogan, an employee of Hawthorne & Company was interviewed under oath at the Tukwila offices of Labor and Industries.
- On March 22, 2002, David Hawthorne, owner of Hawthorne & Company CPA firm was interviewed under oath at the Tukwila offices of Labor and Industries.
- On March 27, 2002, Tim Eyman was interviewed under oath a second time at the offices of the PDC in Olympia.
- On March 28, 2002, Karen Eyman was interviewed under oath at the offices of the PDC in Olympia.
- On March 28, 2002, Suzanne Karr was interviewed under oath a second time at the offices of the PDC in Olympia.

III.

RELEVANT AREAS OF LAW

3.1 **RCW 42.17.120** states the following:

“No contribution shall be made and no expenditure shall be incurred, directly or indirectly, in a fictitious name, anonymously, or by one person through an agent, relative, or other person in such a manner as to conceal the identity of the source of the contribution or in any other manner so as to effect concealment.”
(emphasis added)

3.2 RCW 42.17.065 states in part the following:

“ (1) In addition to the provisions of this section, a continuing political committee shall file and report on the same conditions and at the same times as any other committee in accordance with the provisions of RCW 42.17.040, 42.17.050, and 42.17.060.

(5) The campaign treasurer shall maintain books of account accurately reflecting all contributions and expenditures on a current basis within five business days of receipt or expenditure.

(6) All reports filed pursuant to this section shall be certified as correct by the campaign treasurer.

(7) The campaign treasurer shall preserve books of account, bills, receipts, and all other financial records of the campaign or political committee for not less than five calendar years following the year during which the transaction occurred.

3.3 RCW 42.17.080 states in part the following:

“(4) The treasurer or candidate shall maintain books of account accurately reflecting all contributions and expenditures on a current basis within five business days of receipt or expenditure... The treasurer or candidate shall preserve books of account, bills, receipts, and all other financial records of the campaign or political committee for not less than five calendar years following the year during which the transaction occurred.

(5) All reports filed pursuant to subsections (1) or (2) of this section shall be certified as correct by the candidate and the treasurer.”

3.4 RCW 42.17.090 states in part the following:

“ (1) Each report required under RCW 42.17.080 (1) and (2) shall disclose the following:

(a) The funds on hand at the beginning of the period;

(b) The name and address of each person who has made one or more contributions during the period, together with the money value and date of such contributions and the aggregate value of all contributions received from each such person during the campaign or in the case of a continuing political committee, the current calendar year:

- (d) All other contributions not otherwise listed or exempted;
- (e) The name and address of each candidate or political committee to which any transfer of funds was made, together with the amounts and dates of such transfers;
- (f) The name and address of each person to whom an expenditure was made in the aggregate amount of more than fifty dollars during the period covered by this report.
- (h) The name and address of any person and the amount owed for any debt, obligation, note, unpaid loan, or other liability in the amount of more than two hundred fifty dollars or in the amount of more than fifty dollars that has been outstanding for over thirty days”;

3.5 **RCW 42.17.125** states in part the following:

"Contributions received and reported in accordance with RCW 42.17.060 through 42.17.090 may only be transferred to the personal account of a candidate, or of a treasurer or other individual or expended for such individual's personal use under the following circumstances:

(2) Reimbursement for direct out-of-pocket election campaign and post election campaign related expenses made by the individual. To receive reimbursement from the political committee, the individual shall provide the political committee with written documentation as to the amount, date, and description of each expense, and the political committee shall include a copy of such information when its expenditure for such reimbursement is reported pursuant to RCW 42.17.090.

3.6 **RCW 42.17.020(14)** states in part the following:

“(a) "Contribution" includes:(i) A loan, gift, deposit, subscription, forgiveness of indebtedness, donation, advance, pledge, payment, transfer of funds between political committees, or anything of value, including personal and professional services for less than full consideration”.

3.7 **WAC 390-17-405** states in part the following:

“(1) In accordance with RCW 42.17.020(14)(b)(vi), an individual may perform services or labor for a candidate or political committee without incurring a contribution, so long as the individual is not compensated by any person for the services or labor rendered and the services are of the kind commonly performed by volunteer campaign workers. These commonly performed services include:

(j) except as provided in subsection (2), preparing campaign disclosure reports required by RCW 42.17 and otherwise helping to ensure compliance with state election or public disclosure laws;

(k) campaign consulting and management services, polling and survey design, public relations and advertising, or fundraising performed by any individual, so long as the individual does not ordinarily charge a fee or receive compensation for providing the service and...”

3.8 WAC 390-16-207 states in part the following:

“(1) An in-kind contribution occurs when a person provides goods, services or anything of value, other than money or its equivalent, to a candidate or political committee free-of-charge or for less than fair market value, unless the item or service given is not a contribution according to RCW 42.17.020(14)(b) or WAC 390-17-405.

(2) An in-kind contribution also occurs when a person makes an expenditure that:

- supports or opposes a candidate or a ballot measure,**
- meets the definition of contribution in RCW 42.17.020(14) or WAC 390-05-210, and**
- is other than a monetary contribution made directly to a candidate or political committee.”**

3.9 RCW 42.17.780 states the following:

“A person may not, directly or indirectly, reimburse another person for a contribution to a candidate for public office, political committee, or political party.”

IV.

FINDINGS

- 4.1 On February 6, 2001, the Public Disclosure Commission filed a complaint against Permanent Offense PAC, Permanent Offense, INC, Traffic Improvement Initiative Committee and Tim Eyman. **See Exhibit #1.**
- 4.2 On February 13, 2001, Richard A. Smith and Knoll Lowney, two attorneys representing Permanently Offended, filed a citizen's action (45-day letter) in accordance with RCW 42.17.400 with the Office of the Attorney General and with the King County Prosecutor's Office, the Snohomish County Prosecutor's Office, and the Thurston County Prosecutor's Office. **See Exhibit #2.**

Concealment

Calendar Year 2000

- 4.3 On December 16, 1999, Suzanne Karr sent an email to Tim Eyman regarding Permanent Offense, INC. **See exhibit #9.** (Note-this email was not provided until after the Tim Eyman and Suzanne Karr interviews had already been conducted). Ms. Karr stated the following in the email:

"Talked to Alan Gottlieb. He thinks that running the money through a private organization, even if in keeping with the letter of the law regarding PDC rules, violates the spirit & is suicide. The media will eventually figure it out & it will be uglier than ever."

"He thinks we should run all the money through the PDC and just pay "Permanent Offense" to manage the campaign like the Rockey Group did and Madison does. We would not have to disclose how much ever went to you directly. (except that IRS form I have filed for non-profits do require you to disclose in detail the salaries and expenses of all the principals (sic)—so once again I am back to preferring that we be a for-profit company) We could not avoid disclosure of the money coming in, but could keep the detail of the money that we pay to participants under wraps."

- 4.4 On January 2, 2000, Suzanne Karr sent an email to Tim Eyman regarding Permanent Offense. **See exhibit #10.** (Note-this email was not provided until after the Tim Eyman and Suzanne Karr interviews had already been conducted). Ms. Karr stated the following in the email:

“On the issue of Permanent Offense (the company), I guess it is accurate to say that even as a legal entity, there really won’t be much there, at least not at this point. You and our bank account are our major assets. There are so many holes in the rules for accounting for PAC’s it is really difficult to sort out some of the issues.”

“Like the issue of control over surplus funds we dealt with when we rolled over the money from 695 to Permanent Offense. Since there was no law governing what we could do, we assumed it was OK and that’s it. Seems odd to me because accounting rules are so strict in the private sector. The same thing with assets purchased by a PAC. After a campaign is over, there does not seem to be any rule governing the transfer, so as far as I know, people just “keep stuff”. I assume that we will show anything we buy for either campaign as assets on the Permanent Offense (Co.) books. PDC reporting only requires that we show the cash expenditure, there is no tracking of assets.”

“As far as control of the bank account. You and I currently have control of that money (as officer’s on the PDC forms) and as principles in Permanent Offense (sic), I guess that remains the same. Then there is the question of how much control we really have over it. If it were total, we could use it to buy anything we wanted, but that is really not the case. However, once again PDC rules do not state specifically what we can or cannot do with the money. To an extent it’s a donor beware policy.”

“As you said, the company will exist as an accounting entity to transfer funds to you. (it will cover us with the IRS) I said that I might consider taking compensation if we ever got into a really good cash position, but don’t see that as an issue now. I guess in reality, I am very stupid for wanting 49% of a company that will give me a certain amount of legal liability and not compensation. (I will however, own 49% of my new printer-that’s good).”

- 4.5 On January 30, 2000, Tim Eyman sent an email to Suzanne Karr regarding “salary” from Permanent Offense, INC. **See exhibit #11.** (Note- this email was not provided until after the Tim Eyman and Suzanne Karr interviews had already been conducted). Mr. Eyman stated the following in the email:

“On to another big topic: I’d like to begin the official “payment to Permanent Offense” by both initiatives so that my “salary” will begin.”

“My goal is from January 1, 2000 to December 31, 2000, that Permanent Offense will distribute to Tim a total of \$100,000 over and above expense reimbursement. Fact is, I’m doing more and more with Permanent Offense and less and less with Insignia Corp and sales on our watches showed it in 1999.”

“I get ootsie even typing in the number but given the fundraising trajectory and the potential, it’s the salary I want to try for. We can keep the disbursements steady throughout or start out smaller and spike it after the signatures are submitted, whatever keeps our reserves adequate to accomplish our goals.”

- 4.6 On February 18, 2000, Permanent Offense, INC, filed incorporation papers listing Tim Eyman as the President and registered agent, and issued him 510 shares of stock at \$1.00 each. Suzanne Karr was listed as the Vice-President and Secretary, and she was issued 490 shares of stock at \$1.00 each. The Initial Annual Report of Permanent Offense, INC dated February 29, 2000 indicated the type of business as Consulting and Political Services. **See exhibit #12.**
- 4.7 On March 10, 2000, Suzanne Karr sent an email to Tim Eyman stating the following (**see exhibit #13**):

“This is our first C4 with the Permanent Offense payments, so we will see if we get any flack about it. I have to create some invoices to give to myself to file. I charged 25% of Rev & 8% of expense and then the acctg fees. If you get questioned you can continue to refer them to me. I plan to say that we just got too big to be able to operate on a volunteer basis. We have to create some kind of professional organization if we plan to continue to operate the way we have & that requires money.”

- 4.8 On March 3, 2000, Permanent Offense, INC makes initial bank deposit totaling \$4,600 into a checking account with US Bank. According to Suzanne Karr this amount was the initial capital investment of \$1,000 (\$510 from Tim Eyman, \$490 from Suzanne Karr), plus the \$1,800 in payments received from both Traffic Improvement Initiative Committee and Permanent Offense PAC for professional services, and accounting and database work.
- 4.9 Suzanne Karr produced a printout of WED's reports for Permanent Offense PAC and Traffic Improvement Initiative Committee and explained the formula she used to produce the invoices billed from Permanent Offense, INC during calendar year 2000. **See Exhibit #14.** The amounts listed in the billing invoices produced by Permanent Offense, INC for work performed for Permanent Offense PAC and Traffic Improvement Initiative during 2000 was based on 25% of total contributions received for the reporting period, plus 8% of expenditures made for the reporting period.
- 4.10 During calendar year 2000, a total of **\$37,124.78** in payments were made to Permanent Offense, INC from Permanent Offense PAC as follows:

Date	Amount	Purpose
2/29/2000	\$ 3,913.20	Management/Consulting Fund-raising
2/29/2000	\$ 1,800.00	Professional Services Accounting/Database
3/31/2000	\$ 5,239.89	Management/Consulting Services
3/31/2000	\$ 1,800.00	Professional Services Accounting/Database
4/30/2000	\$ 7,348.08	Management/Consulting Services
4/30/2000	\$ 1,800.00	Professional Services Accounting/Database
8/22/2000	\$ 9,823.61	Management/Consulting Services
8/22/2000	\$ 5,400.00	Professional Services Accounting/Database
	\$ 37,124.78	

- 4.11 During calendar year 2000, a total of **\$23,491.62** in payments were made to Permanent Offense, INC from the Traffic Improvement Initiative Committee as follows:

Date	Amount	Purpose
2/29/2000	\$ 2,459.68	Management/Consulting Fund-raising
2/29/2000	\$ 1,800.00	Professional Services Accounting/Database
3/31/2000	\$ 3,121.82	Management/Consulting Services
3/31/2000	\$ 1,800.00	Professional Services Accounting/Database
4/30/2000	\$ 814.87	Management/Consulting Services

4/30/2000	\$	1,800.00	Professional Services Accounting/Database
8/22/2000	\$	6,295.25	Management/Consulting Services
8/22/2000	\$	5,400.00	Professional Services Accounting/Database
	\$	23,491.62	

(**NOTE**- the payments to Permanent Offense, INC from Permanent Offense PAC and the Traffic Improvement Initiative that occurred on August 22, 2000, were for professional services, accounting and database management, and management and consulting services for the months May through-July.)

- 4.12 On May 3, 2000, Permanent Offense, INC, makes initial expenditure, a \$145.00 payment to Hawthorne and Company.
- 4.13 On August 3, 2000, an engagement letter was sent from Hawthorne & Company to Tim Eyman. **See exhibit #15.** The engagement letter went on to state the following:

“This letter is to confirm the terms of our engagement with Permanent Offense, INC (a Corporation) for the year ended December 31, 2000 and to clarify the nature and extent of the professional services we will provide. Our engagement will be designed to perform the following services:

- **Prepare the federal income tax returns with supporting schedules.**
- **Prepare any bookkeeping entries that we find necessary in connection with preparation of the income tax returns.**
- **Prepare and post any adjusting entries.**

Management is responsible for the proper recording of transactions in the books of accounts, for the safeguarding of assets, and for the substantial accuracy of the financial records. You also have final responsibility for the tax return and, therefore, you should review the return carefully before you sign and file it.”

- 4.14 On September 20, 2000, Tim Eyman received a \$50,000 check from Permanent Offense, INC, and Permanent Offense, INC made a bank deposit totaling \$34,266.94, in order to cover the check to Mr. Eyman.

- 4.15 On September 20, 2000, Permanent Offense, INC, made a \$50,000 payment to Tim Eyman. Permanent Offense, INC reported paying \$54,141.85 in wages, tips and other compensation to Tim Eyman for calendar year 2000 on IRS Form W-3. The \$50,000 represented “net pay” to Mr. Eyman and the \$4,141.85 represented Social Security and Medicare taxes deducted from Mr. Eyman’s compensation. In addition, Permanent Offense, INC paid the employer’s share of Mr. Eyman’s Social Security and Medicare taxes for calendar year 2000, totaling \$4,141.85. Tim Eyman was issued a W-2 by Permanent Offense, INC in calendar year 2000, as the only paid employee of Permanent Offense, INC.
- 4.16 Suzanne Karr performed accounting and database work for Permanent Offense PAC and Traffic Improvement Initiative Committee during the 2000 election campaign. The invoices billed by Permanent Offense, INC for Ms. Karr’s work, and the payments received for those billings, were accumulated by Permanent Offense, INC. Suzanne Karr was not compensated for the work she performed during that time.
- 4.17 On December 12, 2000, Permanent Offense, INC made a \$909.25 expenditure to the Washington State Department of Revenue for Business & Occupation taxes for calendar year 2000. **Check # 1002.** The report listed \$60,616.40 in gross taxable revenue under section I, line 13 Service and Other Activities.
- 4.18 During calendar year 2000, Permanent Offense, INC reported \$60,616.40 in gross taxable revenue on the B & O tax statement filed. The only clients of Permanent Offense, Incorporated were Permanent Offense PAC and Traffic Improvement Initiative Committee. The principals of Permanent Offense PAC, Traffic Improvement Initiative Committee and Permanent Offense, INC were Suzanne Karr and Tim Eyman.
- 4.19 The entire \$60,616.40 in gross taxable revenue reported by Permanent Offense, INC during 2000 was derived from Permanent Offense PAC and Traffic Improvement Initiative Committee. Between February 29 and August 22, 2000, Permanent Offense PAC made payments to Permanent Offense, INC totaling \$37,124.78, and Traffic Improvement Initiative Committee made payments to Permanent Offense, INC totaling \$23,491.62 for management, consulting, fund raising, accounting and database management.

- 4.20 During 2000, Permanent Offense, INC, after deducting expenses for Tim Eyman's salary of \$54,141.85 and the employer's share of Social Security and Medicare taxes, and other corporate expenses, Permanent Offense, INC had a net profit of \$823. Permanent Offense, INC was set up as a Sub Chapter S-Corporation. Under Internal Revenue Service rules, all profits earned by a Sub Chapter S-Corporation during a calendar or fiscal year "pass-through" as income to the shareholders of record.
- 4.21 This net profit was "passed through" to the shareholders, Tim Eyman and Suzanne Karr, in accordance with their ownership interests in the corporation. Ms. Karr indicated under oath that she did not receive any profits from Permanent Offense, INC nor did she receive any documents stating that she had earned any profits from Permanent Offense, INC.
- 4.22 No additional invoices were submitted to either Permanent Offense PAC or Traffic Improvement Initiative Committee after August 22, 2000. In addition, no payments were made to Permanent Offense, INC after that date for services rendered, despite the fact both initiatives were on the November 2000 ballot.
- 4.23 The office for Permanent Offense, INC was located at Suzanne Karr's residence during 2000. The office consisted of equipment and supplies that included computers, copiers, printers, fax machines, telephones (including cellular) and other assets provided from funds expended by Permanent Offense PAC, Traffic Improvement Initiative Committee, or the \$30 License Tab Initiative Committee, and used by Permanent Offense, INC.
- 4.24 In addition, during 2000 there was a \$17.95 check printing charge assessed to Permanent Offense, INC by US Bank on June 9, 2000, and a \$3.00 NSF service charge by US Bank on October 13, 2000.

Calendar Year 2001

- 4.25 On January 12, 2001, a letter was sent from Hawthorne & Company informing Tim and Karen Eyman that they should deposit FICA and Withholding taxes for 2000 totaling \$8,283.70. The letter went on to state "the \$50,000 check from Permanent Offense, INC should be reported by Tim as income".
- 4.26 On January 16, 2001, Tim and Karen Eyman wrote a joint personal check to Suzanne Karr in the amount of \$490 purchasing Ms. Karr's 490 shares

of Permanent Offense, Incorporated stock. There was no meeting of the annual shareholders and executive of Permanent Offense, INC, although meeting minutes had been generated and dated January 16, 2001. Karen Eyman replaced Suzanne Karr as the Vice-President and Secretary.

- 4.27** In addition, on January 16, 2001: Permanent Offense, INC made an expenditure totaling \$8,283.70 to US Bank and for “FICA and W/H desposit”. **Check # 1003**, and an expenditure totaling \$59.00 to the Department of Licensing for renewal of a business license. **Check # 1004**.
- 4.28 On January 29, 2001, Permanent Offense, INC made an expenditure totaling \$434.00 to US Bank for unemployment taxes. **Check # 1005**, and a \$345 expenditure to Hawthorne & Company for accounting services rendered on behalf of Permanent Offense, INC. Check # 1005 for client #1621.
- 4.29 During 2001, Permanent Offense PAC made monthly payments to Permanent Offense, INC totaling \$165,491.78, disclosing the purpose of the expenditures as Management, Consulting, Accounting and Database Services. Permanent Offense PAC was the only client of Permanent Offense, INC. The payments from Permanent Offense PAC to Permanent Offense, INC during calendar year 2001 totaled **\$165,491.78** as follows:

Permanent Offense PAC payments

Date	Amount	Purpose
1/31/2001	\$ 3,348.89	Management/Consulting Services
1/31/2001	\$ 1,800.00	Professional Services Accounting Fees
1/31/2001	\$ 1,200.00	Professional Services Database Management
2/25/2001	\$ 1,200.00	Management/Consulting Services (Mgnt. Expenses)
2/25/2001	\$ 4,623.18	Management/Consulting Fund-raising Mgnt. Fees
2/25/2001	\$ 2,500.00	Professional Services Reimburse Accounting Fees
4/5/2001	\$ 5,327.16	Management/Consulting Services
4/5/2001	\$ 1,200.00	Professional Services Reimburse Database Mgnt.
4/5/2001	\$ 2,500.00	Professional Services Reimburse Accounting Fees
5/5/2001	\$ 1,200.00	Professional Services Reimburse Database Mgnt.
5/5/2001	\$ 4,628.90	Management/Consulting Reimburse Fund-raising
5/5/2001	\$ 2,500.00	Professional Services Reimburse Accounting Fees
6/26/2001	\$ 1,200.00	Professional Services Reimburse Database Mgnt.
6/26/2001	\$ 12,264.10	Management/Consulting Services fundraising/advert.

6/26/2001	\$ 2,500.00	Professional Services Reimburse Accounting Fees
7/25/2001	\$ 1,200.00	Management/Consulting Services & Database Mgmt.
7/25/2001	\$ 16,126.90	Management/Consulting Services Fundraising/advert.
7/25/2001	\$ 2,500.00	Professional Services Reimburse Accounting Fees
8/27/2001	\$ 2,400.00	Management/Consulting Services Database Mgmt.
8/27/2001	\$ 2,690.00	Management/Consulting Services
8/27/2001	\$ 15,676.95	Management/Consulting Services Fundraising/Advert.
8/27/2001	\$ 1,710.00	Professional Services Hawthorne & Co. Accting Fees
9/25/2001	\$ 4,800.00	Management/Consulting Services Consulting fees
9/25/2001	\$ 2,900.00	Management/Consulting Services Consulting fees
9/25/2001	\$ 18,454.60	Management/Consulting Services Consulting fees
10/26/2001	\$ 2,500.00	Management/Consulting Services & Database Mgmt.
11/30/2001	\$ 4,000.00	Management/Consulting Services & Database Mgmt.
11/30/2001	\$ 6,600.00	Management/Consulting Services & Accounting fees
11/30/2001	\$ 16,465.40	Management/Consulting Services & Fundraising fees
12/21/2001	\$ 8,575.70	Management/Consulting Services Fundraising
12/21/2001	\$ 4,100.00	Management/Consulting Services Database Mgmt.
12/21/2001	\$ 6,800.00	Management/Consulting Services Accounting
	\$ 165,491.78	

- 4.30 When asked how the monthly billings from Permanent Offense, INC to Permanent Offense PAC were calculated or determined, Tim Eyman stated **“It was what I determined to be a reasonable rate for the services provided.”**
- 4.31 Tim Eyman stated he was not aware how Suzanne Karr had calculated the invoiced amounts maintained regarding Permanent Offense, INC that were billed during 2000 (that Ms. Karr had based them on 25% of contributions for fundraising fees, and 8% of expenditures for management fees). When asked if the invoice amounts from Permanent Offense, INC were based on an hourly or monthly rate, or was the amount based on any kind of industry standard, Tim Eyman again stated **“I calculated it based on what was—something that I thought was reasonable for the services provided.”** (Tim Eyman Interview under Oath, Volume I, pages 60-61)
- 4.32 On July 31, 2001, Permanent Offense, INC establishes a Money Market account at US Bank, and a \$60,000 transfer from Permanent Offense, INC checking account was made on August 1, 2001, stating Customer Account adjustment (DEBIT) “Transfer to Money Market Account”.

- 4.33 Following a PDC inquiry, on September 5, 2001, Tim Eyman and Permanent Offense PAC prepared and submitted a one-page memorandum and a worksheet as an amendment to previously filed C-4 reports from Permanent Offense PAC. **See Exhibit #16.** The memorandum indicated that Permanent Offense PAC was providing a summary of the information requested by the PDC and that they were still compiling supporting documents in response to PDC's request.
- 4.34 The worksheet indicated that the period covered was January 1-August 31, 2001, and that "Donations to Permanent Offense Initiative" for 2001 as of August 31st totaled \$539,558.00. The document then listed the amount of expenses reimbursed to Tim Eyman, Monte Benham, and Jack Fagan, all accompanied by the statement "breakdown of all campaign expenses attached." The next entries indicated the following:

Payments to Permanent Offense, INC	
Accounting	\$18,700.00
Database Management/development	\$ 9,600.00
Fundraising/advertising	<u>\$61,996.08</u>
Total	<u>\$90,296.08</u>

Payments to vendors from Permanent Offense, INC	
Hawthorne & Company (acctg, database)	\$ 4,535.00
570 KVI (radio advertising)	\$ 2,159.00
Consulting fees to Permanent Offense, INC	<u>\$83,602.08</u>
(Accounting, Database, Fundraising, Advertising)	
Total	<u>\$90,296.08</u>

Contingency fund for Permanent Offense, INC \$82,602.49
(August bank statement showing contingency fund balance attached)

Salaries/payments to I-747 co-sponsors \$ 0
(Tim Eyman, Monte Benham, Mike Fagan, & Jack Fagan)

- 4.35 On September 21, 2001, PDC staff sent an email to Karla Grogan, an employee of Hawthorne & Company and the person working with the WEDS (Washington Electronic Disclosure System). **See Exhibit #17.** The PDC staff's email stated the following:

"I just wanted to make sure the amended information was going to be provided regarding the breakdown of expenditures made to Permanent Offense, INC"

“Tim had faxed us a document on September 5th (I don't know if you have seen it), that listed information that we had previously discussed, but it also included an item entitled "Contingency fund for Permanent Offense, INC" that totaled \$82,602.49. We are also requesting additional information about those funds such as have those funds been reported on a C-3 report, when were they reported, how did they end up in the contingency fund, what is the purpose of the contingency fund, etc...).”

4.36 On September 21, 2001, Permanent Offense PAC submitted the additional requested documentation referred to in the September 5th memorandum. **See Exhibit #18.** The documentation included the following:

- September 5, 2001, worksheet;
- Printout of account balance for Permanent Offense, INC bank account at US Bank;
- 6-pages of itemized reimbursements to Tim Eyman covering the period of August 2000-July 2001 that included date, vendor, description of expenditure, amount of expenditure and method of payment;
- 4-page detail of 2001 reimbursements to Monte Benham;
- 1-page detail of July, 2001 reimbursement to Jack Fagan;
- 21-pages of invoices from Permanent Offense, INC for work billed to Permanent Offense PAC for January-July 2001. The invoice includes a handwritten note to further breakdown the invoice;
- 5-pages of billings/invoice from Hawthorne & Company to Permanent Offense PAC for work performed in 2001;
- A June 11, 2001, handwritten memo from Dave Samp, Senior Account Executive for KVI radio (submitted as an invoice)

4.37 A letter dated September 24, 2001, indicated a debit notification from Bear, Stearns Securities Corp. was sent to Tim and Karen Eyman stating that on September 21, 2001, they transferred \$60,000 from their joint personal Bear Stearns account in the name of Tim and Karen Eyman to a new Bear Stearns account for Permanent Offense, INC and Tim and Karen Eyman. Tim Eyman stated the \$60,000 transfer was not a capital contribution, and that Permanent Offense, INC was not having a cash flow problem (in fact the contingency fund balance publicly disclosed by Tim Eyman through August 31, 2001 had a balance of more than \$82,000).

When asked about the transfer, and why the funds were transferred, Tim Eyman stated the following:

“I assume so, because whenever I do anything, I check with Hawthorne and ask them, you know, what we are doing here.”
“No immediate plans depending on how the legal fees go in this situation.”

“...This was having, if you will, a – you know, having some money in a long-term investment position as well as money in a short-term cash position. The one in the US Bank being the more cash position and the one at Bear Stearns more the long term”.
(Tim Eyman Interview under Oath, Volume II, pages 212, 213 and 214)

4.38 Pursuant to a subpoena issued by PDC, a document was submitted by Hawthorne & Company that appeared to have been dated January 24, 2001. **See exhibit #19.** The document was a “Debit notification” from Bear, Stearns Securities Corp. and addressed to Tim and Karen Eyman stating that on January 21, 2001, \$60,000 was transferred from the Eyman’s personal account to a new Permanent Offense, INC Bear Stearns account in accordance with the Eyman’s instructions.

4.39 The document was determined to be fictitious in nature, based on the testimony of David Hawthorne who stated the following regarding the fictitious \$60,000 transfer and the actual \$60,000 transfer:

“...when we saw this additional document, we could not reconcile the accounts because there were two—apparently, two \$60,000 transfers, but only one showed up in the Permanent Offense, INC, Allied Securities account. And after the investigation began, it became apparent to us that the January 24th document—actually, we became aware that it was a fictitious document...I believe it was prepared by Tim Eyman.”

“Tim told me it was fictitious...it was after our meetings with the attorneys, initially, and he just said that he had put an additional document in the records that he had not intended to give us.”

“He indicated that he had modified the Bear Stearns document, the September 24th document.” (David Hawthorne Interview under Oath, pages 27, 28 and 29)

4.40 Tim Eyman stated the following regarding this fictitious document:

“On Sunday I held the press conference. The Friday before that press conference was a Seattle PI story that came out that talked about the Permanent Offense, Incorporated, account. There were subsequent conversations during that weekend with Monte where I told him that early in 2001 that I had made a transfer of \$60,000 from Tim and Karen Eyman’s personal account over to a separate Permanent Offense, Incorporated, account. I subsequently looked for the paperwork on that over the weekend and found out that it had been in the latter part of 2001. And for—and so what I ended up doing was, rather than telling Monte that I got the date incorrect, I ended up creating the document so that I could fax it to him and say, See, Monte, I told you the \$60,000 was transferred in early January.”

“...I took the September document and covered over the SEP and put JAN in its place and then photocopied that and faxed that to Monte.”

“...I told Monte that—and going off my own memory—that in early 2001, I had made this transfer of \$60,000 from our own personal account over to the Permanent Offense, INC account. When I subsequently found the document itself to send it to him, I realized that it had been done much later—not much later, but nine months later, and instead of calling him back, and saying I got the date wrong, I ended up changing the document to reflect January 21, 2001, instead of September, 2001.”

“...I had told him that I had done it in early 2001, and rather than getting into, you know, him questioning my credibility on the issue, I chose, instead to change. You know, I shouldn’t have done it, but I did.” (Tim Eyman Interview under Oath, Volume II, pages 206, 207 and 208)

4.41 On September 27, 2001, PDC staff sent an email to Tim Eyman and Permanent Offense PAC requesting that additional information be provided. **See exhibit #20.** The request was a follow-up to the September 21, 2001, information submitted by Permanent Offense and referred to above. The PDC staff’s email stated, in part, the following:

“...The additional information we were requesting was regarding the invoices from Permanent Offense, INC, and specifically the invoices that listed the description "Fundraising/advertising" or "fundraising." If any portion of the committee funds paid to Permanent Offense, INC were for services that were subcontracted out to a third party, the name and address of the third party vendor would have to be provided along with the amount and description or code of the activity. The expenditure would get broken down as if Permanent Offense wrote the checks separately to each vendor.”

“The other invoices that listed the description "PO Inc consulting fees (database or accounting)" may not need any additional information unless those funds received from Permanent Offense were for services that were subcontracted out to a third party.”

“...If any of the Permanent Offense, INC invoices need additional information provided, write "amended copy" across the top and in the bottom portion of the invoice make an asterisk, then provide the breakdown of third party vendors as needed. If you could memorialize the information about the contingency fund in either a memorandum or letter format, we would appreciate it.”

- 4.42 On October 4, 2001, PDC staff sent a letter to Tim Eyman and Permanent Offense PAC requesting additional information. **See Exhibit #21.** The letter stated the following:

“... we are requesting some clarification of the information provided regarding payments from Permanent Offense to Permanent Offense, INC and the existence of a Contingency fund. While you and I have corresponded a number of times concerning this issue, the documentation you provided requires additional information for the public record in the form of a written response. The document you submitted from Permanent Offense on September 5, 2001, listed a Contingency fund for Permanent Offense, INC with a balance of \$82,602.49. With regard to those funds, please respond to the following:

- Are the monies in the contingency fund the result of payments paid to Permanent Offense, INC and reported on PDC reports as being for political consulting, fundraising, advertising or database? Please explain.**

- **What is the purpose of the contingency fund?**
- **Are you establishing a legal defense fund?**
- **If not, how do you anticipate those contingency funds to be expended by Permanent Offense, INC in the future?**
- **When the contingency funds are disbursed in the future, will Permanent Offense report them?**

4.43 On October 10, 2001, Tim Eyman responded to the PDC on the record regarding the contingency fund by stating the following (**See Exhibit #22**):

“As you know, we have sponsored and promoted several initiatives over the past few years. We set up Permanent Offense, INC as a private consulting firm to handle the fundraising, advertising, database management, accounting, and other needs for our initiatives.”

“We have properly accounted for instances where our campaign paid Permanent Offense, INC for consulting services and they have been recorded on our reports as “consulting fees” relating to fundraising, advertising, database management, and accounting services.”

“Like any good business, we maintain a prudent contingency fund to handle unexpected needs. What will we use these funds for? The answer is the unexpected (but one thing we know for sure, much of these funds will go toward paying taxes). And as we’ve done in the past, any campaign-related expenditures paid by Permanent Offense, INC will continue to be reported to the PDC (as we have always done).”

4.44 Mr. Eyman did not clarify that the “taxes” referred to in this response were related to his personal income taxes resulting from the receipt of compensation paid to him by Permanent Offense, INC or from profits distributed to him by Permanent Offense, INC.

4.45 Permanent Offense, INC made the following payments to Hawthorne & Company:

<u>Date</u>	<u>Amount</u>
2/12/01	\$ 390.00
2/12/01	\$ 360.00

5/10/01	\$1,101.00
6/18/01	\$ 25.00
6/18/01	\$ 559.00
6/23/01	\$ 775.00
6/23/01	\$ 45.00
8/13/01	\$1,710.00
8/13/01	\$ 825.00
10/8/01	\$ 90.00

- 4.46 On October 19, 2001, Permanent Offense, INC, an entity 100% owned and controlled by Tim and Karen Eyman, made a \$60,900 withdrawal from the US Bank Money Market Account, and paid a vendor of Insignia Corporation, another entity that is 100% owned and controlled by Tim and Karen Eyman. When asked about the withdrawal and transfer from Permanent Offense, INC Tim Eyman stated:

“That was a payment made to a mail-order house for mail services and postage services for Insignia Corporation. It was recorded as a loan from Permanent Offense, Incorporated...”

“...it directly paid a vendor. It was the easiest account for me to wire transfer from. And I wanted to ...get the vendor paid. And so I paid it out, and it was my understanding that Hawthorne & Company would record that as a loan.” (Tim Eyman Interview under Oath, Volume I, page 82 and)

- 4.47 The \$60,900 in funds from Permanent Offense, INC was used to send out 300,000-400,000 letters to sorority and fraternity college students nationwide by PSI Group, INC, a mail-order house and vendor of Insignia Corporation. The funds were paid via wire transfer to PSI, and the letters were sent to sorority and fraternity college students nationwide, soliciting watch sales for Insignia Corporation. An invoice provided by Tim Eyman and Insignia Corporation, from the PSI Group, Inc. in Seattle Washington indicated the following (**See Exhibit #23**):

Date	Transaction Description	Amount
10/26/2001	Beginning Deposit Balance	\$60,900.00
10/27/2001	Invoice 1132666 – Job No 15503	(\$66,654.55)
10/27/2001	Ending Deposit Balance	(\$5,754.55)

- 4.48 Tim indicated the funds expended to PSI Group, INC were considered a loan from Permanent Offense, INC to Insignia Corporation. No formal loan documentation was produced by Tim Eyman to confirm that status of the loan. The only documentation that existed was a handwritten ledger entry maintained by Hawthorne & Company, indicating a beginning balance of \$60,000 and dividend income totaling \$594.95. **See exhibit #24.**
- 4.49 On December 3, 2001, Permanent Offense, INC closed one Money Market bank account at US Bank that had an account balance of \$50,668.60. A new account was opened at US Bank (NOTE-initial deposit included \$50,668.60 transfer from closed account, plus \$27,065.40 worth of payments from Permanent Offense PAC for November billings.)
- 4.50 On December 5, 2001, David Hawthorne sent an email to Tim Eyman stating the following (**see exhibit #25**):

“Unfortunately, the Corp. can’t pay for your taxes—not without the payment being considered personal compensation to you (or paid on your behalf).”

That is why we were thinking that effectively has a net pay amount of zero whereby all of the pay would go to taxes....So, in effect, the corporation would be paying this for you and you would get no paycheck, the only trace of compensation paid to you would be the W-2 you would receive from the corp. But there would be no check in the checkbook written directly to you for payroll, only to the IRS. This may accomplish what you are thinking only in a roundabout way.

“...My preference would be the zero payment method to get it done and over with. And this period is between elections so your opposition won’t be looking so closely for a while. And, if so, we will be into 2002 and during the next election season and your 2001 compensation will be outside of the current year accounting period and may be overlooked.”

- 4.51 An additional email was sent on December 5, 2001, this one at 1:56 PM, from Dave Hawthorne to Tim Eyman, which stated the following (**see exhibit #26**):

“...I just want to be sure that you realize that any profit built up in PO , INC this year is reported on your personal income tax return because PO, INC is an S-Corp. So you are personally liable for the income tax in these profits.” “I know the W-2 is against the grain of what you have been saying all along, but no one would expect you to pay all the tax out of your personal funds without some sort of reimbursement from the corporation.”

“One thing that would offset this profit in PO, INC is any loss in Insignia and this could reduce the personal tax liability. However, if I recall correctly, Insignia is doing better this year and may not generate a loss of that magnitude.”

- 4.52 In January 2001, Permanent Offense, INC incurred changes to its corporate structure, when Suzanne Karr sold her 49% ownership interest to Tim and Karen Eyman. Permanent Offense, INC was set up as a Sub Chapter S-Corporation. Under Internal Revenue Service rules, all profits earned by a Sub Chapter S-Corporation during a calendar or fiscal year “pass-through” as income to the shareholders of record.
- 4.53 Permanent Offense, INC reported paying \$5,000 in wages, tips and other compensation to Tim Eyman for calendar year 2001 on IRS Form W-3. Permanent Offense, INC has filed for an extension to file its income tax return for 2001. Therefore, it was not possible to ascertain the net profit earned by Permanent Offense, INC for calendar year 2001 that will “pass through” to Tim Eyman.
- 4.54 However, the bank balance in the Preferred Business Money Market account at US Bank for Permanent Offense, INC as of January 2, 2002, was \$97,287.21.

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- 4.55 On January 2, 2002, a fax document was sent from Jennifer Sisson with First Allied Securities to Karla Grogan, with Hawthorne regarding up to date information on Tim Eyman's accounts. **See exhibit #27.** Tim Eyman stated the following regarding the transfer of funds that occurred on September 24, 2001:

“Well, I asked him to make the transfer of the funds, but to minimize the penalty for doing so, because there had to be the sale of assets in order to get the transfer over. So I asked him, Please sell off whatever is necessary while minimizing the tax liability and frankly, your fees for doing this transfer.” (Tim Eyman Interview under Oath, Volume II, page 213)

4.56 On January 3, 2002, David Hawthorne sent an email to Tim Eyman addressing the issue of the Eymans' tax liability for 2001, and suggesting it would be approximately \$42,000. **See exhibit #28.** Mr. Hawthorne suggested that the tax liability could be paid for in one of two ways: 1) Through a payroll tax deposit of \$42,000 paid by PO, INC on behalf of Tim Eyman by January 15, 2002; or 2) By making a dividend distribution of \$42,000 to Tim Eyman and paying the same amount by April 15, 2002, with an income tax extension filing.

4.57 On January 14, 2002, Permanent Offense, INC made two expenditures to US Bank, the first totaling \$5,382.80 for FICA and W/H: 941 deposit, and the second expenditure was for a 941 deposit totaling \$310.

4.58 Also on January 14, 2002, Permanent Offense, INC made an expenditure totaling \$2,482.38 to Washington State Department of Revenue for Business and Occupation taxes. In addition, Permanent Offense, INC also made an expenditure totaling \$530 to Hawthorne & Company on January 14th.

4.59 During January of 2002, a total of \$7,659.80 in payments were made to Permanent Offense, INC from Permanent Offense PAC as follows:

Date	Amount	Purpose
1/25/2002	\$ 4,659.80	Management/Consulting Services: F/R for I-748
1/25/2002	\$ 1,800.00	Management/Consulting Services Accounting Fees
1/25/2002	\$ 1,200.00	Management/Consulting Services Database Mgmt.
	\$ 7,659.80	

4.60 On February 3, 2002, David Ammons, a reporter with the Associated Press wrote an article entitled *Eyman admits taking campaign cash as salary*, that appeared in the Seattle PI. **See exhibit #29.** The article went on to include the following:

“On Friday, the Post-Intelligencer originally revealed the diversion of campaign funds and Eyman’s denial that he personally profited...Eyman stuck to his story that campaign contributions he diverted to his for-profit consulting firm, Permanent Offense Inc., were being held for future initiative efforts and not for his personal benefit. But Sunday night, he revealed that the “Permanent Offense Inc. organization was set up to have a way to cover the fact that I was making money sponsoring initiatives, and none of my co-sponsors knew that was the case. Eyman said he took \$45,000 from POI in December of 2000 after running Initiative 722...”

- 4.61 On February 4, 2002, Tim Eyman held a press conference. During the press conference, he admitted that he had lied about receiving payments or compensation for working on initiatives. Mr. Eyman had maintained over the years that he was acting as an unpaid volunteer for the initiatives. He stated to the press that **“This entire charade was set up so I could maintain a moral superiority over opposition, so I could say our opponents make money from politics and I don’t.”** (King5.Com Top Stories, February 4, 2002; nytimes.com, February 5, 2002.)
- 4.62 On February 5, 2002, Permanent Offense, INC made a \$59.00 payment to the Washington State Department of Licensing. **Check # 1056.**
- 4.63** On February 21, 2002, Permanent Offense, INC transferred \$30,000 from the US Bank Money Market Fund to US Bank checking account, and on February 22nd Permanent Offense, INC made a \$25,000.00 payment for a retainer for legal services. **Check # 1035.**
- 4.64 On February 26, 2002, Permanent Offense, INC made a \$350.00 payment to Hawthorne & Company. **Check # 1033**, and a \$30.03 payment to an unknown vendor (no cancelled check provided, just a bank statement). **Check # 1034.**
- 4.65 Between February 29, 2000, and January 25, 2002, Permanent Offense, INC billed and received payments from Permanent Offense PAC and the Traffic Improvement Initiative totaling \$233,767.98.
- 4.66 As of February 28, 2002, the two bank accounts for Permanent Offense, INC at US Bank had a combined balance of \$70,027.58. In addition, the Bear Stearns account balance for Permanent Offense, INC as of February 22, 2002 was \$59,851.00, for a combined account total of \$129,878.58.

The Bear Stearns account for Permanent Offense, INC does not appear to have had any activity since the September 24, 2001 transfer.

Reimbursements to Tim Eyman

- 4.67 Between December 1, 1998-November 30, 2001, Tim Eyman was reimbursed more than \$72,000 by the \$30 License Tab Initiative, Permanent Offense PAC, and Traffic Improvement Initiative Committee for out-of-pocket expenditures. There were well in excess of 500 separate out-of-pocket expenditures incurred by Tim Eyman for which reimbursement was made.
- 4.68 Reimbursement information submitted by Tim Eyman and Suzanne Karr for out-of-pocket expenditures made by Tim Eyman, were entered into a Excel spreadsheet by PDC staff. **See exhibit #30.** The \$72,000 in total reimbursements is broken down by calendar year, excluding the \$269.13 reimbursed during December of 1998, as follows:

Calendar Year	Description	Reimbursement total
1999	All Reimbursements to Tim Eyman	\$36,280.04¹
2000	All Reimbursements to Tim Eyman	\$14,746.28
2001	All Reimbursements to Tim Eyman	\$21,468.50
	Total	\$72,494.82

- 4.69 The \$72,000 in total reimbursement payments made to Tim Eyman for out-of-pocket expenditures, are broken down by category as follows:

• Postage	\$26,654.98;
• Miscellaneous	\$18,969.68;
• Printing	\$ 9,668.04;
• Travel	\$ 5,311.91;
• Office Supplies	\$ 4,863.02;
• Vehicle Expenses	\$ 4,834.72;
• Phone	\$ 1,948.35.

¹ Documents requested by subpoena and submitted by Permanent Offense PAC and Traffic Improvement Initiative, covered the period of January 1, 2000 to present.

4.70 In addition, Permanent Offense PAC and Traffic Improvement Initiative Committee provided a spreadsheet listing reimbursements to Tim Eyman for out-of-pocket expenditures totaling \$14,749.70 that was maintained by Suzanne Karr. **See exhibit #31.** The \$14,749.70 for Tim Eyman's out-of-pocket expenditures covered the period November 1999 through December 2000.

4.71 There were reimbursement requests submitted by Tim Eyman to Suzanne Karr, treasurer of Permanent Offense PAC that were not approved for reimbursement. According to column 6 of the worksheet, on at least 32 occasions, at least some portion of the items submitted by Tim Eyman were excluded for reimbursement. The "amount excluded" for items submitted by Tim Eyman for reimbursement totaled \$1,411.10, and included the following:

- **24-occasions in which no documentation was provided by Tim Eyman;**
- **Two-occasions, one for \$227.71 for maintenance on Mr. Eyman's Nissan automobile and the other for \$76.02 for detailing the Nissan (Ms. Karr indicated the use of the Nissan was not related to work for the initiative. Both cars were detailed within one week of each other, and Mr. Eyman submitted both expenditures for reimbursement (01/27/2000 and 02/03/2000);**
- **Three-occasions totaling \$30 were rejected as being personal for pistachios, a Sesame Street item, and cashews;**
- **One-occasion totaling \$117.91 to Alamo that was pro-rated for attending a conference.**

4.72 Suzanne Karr stated the following regarding the items she excluded for reimbursement to Tim Eyman

"I added the last column at the year end, because at year end the last expense report he submitted I went back and verified against previous expense reports. And I told him I was going to do this, because early on when he was handing in his expense reports, I didn't have as much time to through them because I was-you know I was really busy. So I told him that when he turned in his report, I would go back and reconcile everything."

“And there were some items where he was supposed to find me receipts for them and you, know, he didn’t come up with them. So I excluded those from the amount originally paid. So my amount included is what I originally paid but then later on in my reconciliation, I pulled out some items because he didn’t come through with the receipt or I decided that it didn’t make any sense to me...” (Suzanne Karr Interview under Oath, Volume I, pages 35, 36 & 37)

4.72 Suzanne Karr was asked how she determined the amount of overpayments received by Tim Eyman. Ms. Karr stated she entered them on a spreadsheet, and when she reconciled the expenditures with the receipts submitted, she felt as treasurer, the amount of overpayments to Tim totaled \$1,411.52. Tim Eyman submitted the receipts totaling \$1,414.52, the majority of which occurred during the last quarter of calendar year 2000. Out of the total \$1,414.52 submitted for reimbursement by Tim Eyman for out-of-pocket expenditures, Suzanne Karr only paid him \$3.42. Ms. Karr indicated that was preferable to having Mr. Eyman write her a check for the overpayment.

4.73 On December 28, 2000, Suzanne Karr sent an email to Tim Eyman regarding this issue. **See exhibit #32:** (Note-this email was not provided until after the Tim Eyman and Suzanne Karr interviews had already been conducted). The email went on to state the following:

“I started looking at your last months receipts in order to determine whether the campaign bought that original cartridge you returned to see if we should get the credit. Looking through your receipts I realized that I have just scratched the surface of the problem here & have opened an entire can of worms. I found that you charged your parking for when you went to your watch convention & postage to England. I am afraid I will have to do a complete audit of all prior reports & file some amended returns.”

4.74 On February 1, 2001, Suzanne Karr sent an email to Tim Eyman about the reimbursement. **See exhibit #33:** (Note-this email was not provided until after the Tim Eyman and Suzanne Karr interviews had already been conducted). The email went on to state the following:

“I will reconcile everything & I think I can get back to you in a week. I have lots of other stuff to do right now. Since you have control of the treasury now, I don’t understand your concern. You can turn in just about anything, get all the money you want & I assume Karen will sign the reports. You must have lots of Insignia expenses for December you can use.”

- 4.75 Ms. Karr stated the following regarding the reimbursement process for the \$30 License Tab Initiative, Permanent Offense PAC and Traffic Improvement Initiative Committee:

“...the process for expense reimbursement was kind of a give-and-take and informal and , you know, what was this for and why did you do that...”

“If they turned stuff in that I thought was schlocky, I’d throw it back. That was the procedure. Jack and Monte were trained that if they wanted their money fast, they better send in this nicely organized list of stuff and, you know, if they sent me the shoebox of receipts, it would take longer to get their checks...”

“Tim had his own little sheet, cover sheet that he would send with his expenses which generally were of little use to me because of the way it was—they were organized” (Suzanne Karr Interview under Oath, Volume I, pages 35-36)

- 4.76 Ms. Karr was asked if the \$30 License Tab Initiative, Permanent Offense PAC or the Traffic Improvement Initiative Committee used some type of standard reimbursement form that would be submitted by individuals prior to receiving reimbursement. Ms. Karr stated the following:

“...But we had nothing like that. It was just a matter of people handing in the report generally with some sort of thing on their own that they would make up, like a little Excel spreadsheet or whatever as a cover.” (Suzanne Karr Interview under Oath, Volume I, page 36)

- 4.77 On February 10, 2001, Permanent Offense PAC filed an amended C-1pc listing Karen Eyman as the new treasurer. However, according to statements made by Karen Eyman, she did not act in that capacity other than to sign PDC reports. David Hawthorne, Monte Benham, Jack Fagan, and Mike Fagan all indicated during their interviews, they had not been in contact with Karen Eyman since she was listed a treasurer for Permanent Offense PAC.
- 4.78 Hawthorne & Company prepared the PDC reports using the WED'S program, based on information submitted to them from Tim. The information submitted to Hawthorne & Company included copies of checks written by Tim Eyman and some invoices, and a transfer of the contributor database. The completed PDC reports were sent to Karen Eyman by Hawthorne & Company, and she would sign them and give them to Tim Eyman.
- 4.79 Ms. Eyman did not verify their accuracy, and thought that her only duty was to verify that the reports were being completed and filed. In addition, during the interview, Ms. Eyman stated that she did not understand the difference between the corporation and the PAC. Ms. Eyman further stated during her interview under oath that she did not provide any oversight for any reimbursements made to Tim Eyman, or any other Permanent Offense PAC official during the time she was listed as treasurer.
- 4.80 For all intents and purposes, Tim Eyman was the treasurer of Permanent Offense PAC from February, 2001 through February 15, 2002. It appears that beginning in early 2001 after Suzanne Karr left, there were no internal controls over the reimbursement process. When asked about whether or not the reimbursement process was any different under I-747, Tim Eyman stated:
- “...the expense reimbursements were submitted. I would write the check to reimburse and then would submit the itemized list with the receipts to Hawthorne & Company who would look those over and would process the PDC work from that.”** (Tim Eyman Interview under Oath, Volume I, page 27)
- 4.81 David Hawthorne indicated Hawthorne & Company did not have any discussions with Tim Eyman about the reimbursement process or any of the reimbursements made from Permanent Offense PAC. David Hawthorne stated the following when asked about the details of the discussions he had with Tim Eyman concerning Permanent Offense, INC:

“Oh, as I do with most of my clients who have closely-held companies, there tends to be a blurry line between: What’s the business, and what’s personal? And we emphasize very strongly to our clients that every entity is a separate entity and they should treat it that way as an—at an arm’s length transaction between these entities. So that’s kind of the standard discussion we have with most of our clients.” (David Hawthorne Interview under Oath, Volume I, page 72)

Reimbursements CY 2001

- 4.82 During calendar year 2001, Permanent Offense PAC reimbursed Tim Eyman more than \$21,000.00 for out-of-pocket expenditures. After January 1, 2001, Permanent Offense PAC, Permanent Offense, INC, and Insignia Corporation offices were all located in Tim Eyman’s personal residence. During the majority of 2001, Tim Eyman indicated he controlled the checkbook for Permanent Offense PAC and he was reimbursed for any and all invoices he submitted.
- 4.83 The following are examples of expenditures that Tim Eyman was reimbursed for during 2001 at a time when Mr. Eyman acted as the treasurer of Permanent Offense PAC, even though Karen Eyman was listed as treasurer and signed the PDC reports:
- **A \$2,800.00 expenditure to the US Postal Service on October 12, 2001. The only documentation provided by Mr. Eyman was a credit card receipt, despite a request for additional documentation. No postal service invoice was provided.**
 - **A \$5,600.01 expenditure to the US Postal Service on October 26, 2001. The only documentation provided by Mr. Eyman was a credit card receipt, despite a request for additional documentation. No postal service invoice was provided.**
- 4.84 When interviewed about the two postage reimbursements listed above, Tim Eyman could not identify the purpose of the expenditures, although he did acknowledge that a portion of the expenditures could have been Insignia-related or personal.

- 4.85 The documentation submitted by Tim Eyman consisted of either a postal receipt listing individual amounts, or, more often a credit card receipt with only a total amount listed and no other information. There was no way to verify that postage costs incurred by Tim Eyman and submitted for reimbursement to Permanent Offense PAC were strictly for PAC-related purposes.
- 4.86 Tim Eyman submitted a postage receipt dated July 9, 2001, for reimbursement that included four items mailed to Washington State zip codes. The remaining six items were mailed outside Washington State to locations in the states of Indiana, Tennessee, Nebraska, Pennsylvania and Maine. **See exhibit #34.**
- 4.87 Tim Eyman was reimbursed for these receipts, as well as a number of other postage receipts, that included items mailed to Rhode Island, California, and New York. Mr. Eyman acknowledged that these examples, and other postage receipts submitted for reimbursement, included postage costs for Insignia Corporation related business.
- 4.88 In addition, other items reimbursed to Tim Eyman included the following:
- **At least four expenditures totaling \$2,300 to Lexus of Bellevue and Fife for vehicle maintenance and repair was reimbursed during calendar year 2001² that included the following:**
 - **December 1, 2001: Reimbursement to Tim Eyman for credit card payment to a Lexus dealer for \$1,180.98. The invoice provided indicated the entire cost was to replace a windshield for the Lexus (although when interviewed, Mr. Eyman stated he thought the expenditure was for maintenance on the Lexus);**
 - **November 8, 2001: Reimbursement to Tim Eyman for credit card payment to Lexus of Tacoma at Fife for \$625.95 for 30,000 mile interval service (Invoice provided);**
 - **August 14, 2001: Reimbursement to Tim Eyman for credit card payment to Lexus of Bellevue for \$128.32 (No invoice provided);**

² According to statements made under oath, the Lexus vehicle was not the primary vehicle used by Tim Eyman to conduct Permanent Offense PAC business.

- **March 29, 2001: Reimbursement to Tim Eyman for credit card payment to Lexus of Tacoma at Fife for \$365.11 for 15,000 miles or one year interval service (Invoice provided).**
- **Numerous expenditures totaling \$2,034.65 for gasoline purchases made during calendar year 2001.³**
- **At least \$1,400 for office supplies during calendar year 2001.⁴**

Reimbursements November 1, 1999-December 31, 2000

4.89 Tim Eyman was reimbursed on numerous occasions by Permanent Offense PAC, Traffic Improvement Initiative Committee, and the \$30 License Tab Initiative for out-of-pocket expenditures incurred between November 1, 1999-December 31, 2000. The following are examples of specific expenditures and a breakdown of other expenditures reimbursed to Tim Eyman between November 1, 1999-December 31, 2000:

- **A total of \$2,530.29 for postage costs by Permanent Offense PAC and Traffic Improvement Initiative Committee. None of the documents indicated that any of the postal costs were pro-rated between work on I-722 or I-745, Insignia Corporation, or personal costs.**
- **A total of \$1,918.65 for gas by Permanent Offense PAC and Traffic Improvement Initiative Committee between November 1, 1999 through December 31, 2000.³**
- **At least \$2,600 for office supplies between December 1, 1999 and December 31, 2000.⁴**

³ No documents submitted by Tim Eyman indicated that any of the payments for gasoline during calendar year 2000 and 2001, was pro-rated between initiative work, Insignia Corporation, or personal costs. In addition, Tim Eyman did not maintain a mileage log or calendar for work performed for Insignia Corp., Permanent Offense PAC, Traffic Improvement Initiative Committee, or Permanent Offense, INC covering the period November 1, 1999 to the present.

⁴ Statements made by Tim Eyman indicated that office supplies and equipment purchased by Permanent Offense PAC, Traffic Improvement Initiative Committee and \$30 License Tab Initiative were used for Insignia Corporation and Permanent Offense, INC related activities.

Expenditures and Reimbursements to Tim for Business/Personal Use

- 4.90 Insignia Corporation is a mail-order business that was incorporated in 1990 as a sub-chapter S-Corporation. Tim Eyman stated that he is the President of Insignia Corporation and that he is the sole shareholder. When asked how he split his time between the work for Insignia Corporation and I-695, the \$30 License Tab Initiative Committee Tim Eyman stated the following:

“Any day was a mixture of personal and business and initiatives, and they kind of morphed all together...It was just an enormous amount of time on the initiatives and then personal and business mixed in as well.” (Tim Eyman Interview under Oath, Volume I, page 9)

- 4.91 When asked how he split his time between the work for Insignia Corporation and I-722, Permanent Offense PAC and I-745, Traffic Improvement Initiative Committee, Tim Eyman stated the following:

“Every day was just a combination of personal business and initiatives”. (Tim Eyman Interview under Oath, Volume I, page 22)

- 4.92 Insignia Corporation is operated out of the Eyman’s personal residence and is not separated from any of the facilities of either Permanent Offense, INC or Permanent Offense PAC. Insignia Corporation gets its clients by contacting the national fraternities and sororities, and entering into an agreement to sell watches to their members in exchange for a royalty payment. Under the agreement, the national fraternities and sororities provide mailing lists of students directly to a mail house in exchange for a royalty payment paid to various national fraternity and sorority associations.
- 4.93 Tim Eyman indicated that watch orders are taken over the Internet, by email, by phone call-in orders through a message center, and by faxed orders. Watches for Insignia Corporation are shipped to directly to Tim and Karen Eyman’s personal residence. The watches are maintained there, and Karen Eyman keeps an inventory of the watches in stock. The watches are then packaged and taken to the post office for mailing by Tim Eyman. There were a number of instances in which Tim Eyman confirmed that he was reimbursed by Permanent Offense PAC for out-pf-

pocket expenditures for postage that included postage expenditures to mail watches for Insignia Corporation.

- 4.94 Tim Eyman submitted a postage receipt dated July 9, 2001, for reimbursement. The receipt listed that 10 items were mailed, including several items mailed to Washington State zip codes. However, of the 10 items listed, six items were mailed outside Washington State; ie, to Indiana, Tennessee, Nebraska, Pennsylvania and Maine. **See exhibit #34.** Tim Eyman was reimbursed for these receipts, as well as a number of other postage receipts, that included items mailed to Rhode Island, California, and New York. Mr. Eyman acknowledged that these examples, and other postage receipts submitted for reimbursement included postage costs for Insignia Corporation related business.
- 4.95 Tim Eyman was asked to provide documents detailing mailing costs for Insignia Corporation mailings for calendar years 1999, 2000, and 2001. These documents were requested in order to determine any portion of Insignia Corporation mailings for those years that was paid for by Permanent Offense, INC, \$30 License Tab Initiative, Permanent Offense PAC, Traffic Improvement Initiative Committee, or through any of the reimbursements made to Tim Eyman.
- 4.96 A handwritten list of the vendors used and the amount paid by Tim Eyman was provided to the PDC on March 27, 2002 by Mr. Eyman. **See exhibit #35.** The handwritten document included the following:

Insignia Mailing Costs-CY 2001

<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
10/10/2001	Wy'east	\$ 675.25
10/15/2001	K/P Corporation	\$ 7,687.85
10/19/2001	Adpro	\$ 6,866.78
10/19/2001	PSI Group, INC	\$ 60,900.00
11/28/2001	PSI Group, INC	\$ 5,754.55
	Total 2001 mailing	\$ 91,884.43

Insignia Mailing Costs-CY 2000

<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
10/05/2000	K/P Corporation	\$ 6,833.96
10/08/2000	Adpro	\$ 11,408.18
10/09/2000	PSI Group, INC	\$ 49,800.00
10/16/2000	K/P Corporation	\$ 3,514.55

10/28/2000	Wy'east	\$ 6,000.00
11/26/2000	PSI Group, INC	\$ 1,414.56
	Total 2000 mailing	\$ 78,971.25

Insignia Mailing Costs-CY 1999

<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
10/04/1999	Adpro	\$ 10,708.46
10/13/1999	K/P Corporation	\$ 8,007.18
No date listed	PSI Group, INC	\$ 56,440.00
10/28/1999	Steve Young	\$ 725.00
11/05/1999	K/P Corporation	\$ 947.03
11/30/1999	PSI Group, INC	\$ 5,075.36
	Total 1999 mailing	\$ 81,903.03

- 4.97 With the exception of the \$60,900.00 loan from Permanent Offense, INC to Insignia Corporation for the 2001 mailing previously referred to in this report, no additional funds of Permanent Offense, INC appear to have been used directly to assist Insignia Corporation with its annual sorority and fraternity mailing. However, the handwritten memo was provided on March 27, 2002, and it was not possible to obtain the invoices and other back-up documentation to verify the information, prior to the issuance of this report.
- 4.98 In addition to the numerous reimbursements to Tim Eyman for office equipment and supplies, the following purchases of equipment and office supplies were made and reported directly by Permanent Offense PAC, Traffic Improvement Initiative Committee and the \$30 License Tab Initiative:
- **On February 21, 2000, Permanent Offense PAC made an expenditure totaling \$3,904.17 to First Choice Business Machines for the purchase of a Sharp Digital Copier with feeder.**
 - **On September 5, 2000, Suzanne Karr purchased three computers from Micronpc.com totaling \$5,285.52 with her personal credit card. On November 27, 2000, the Traffic Improvement Initiative Committee made a payment to Sea-First Bank in the amount of \$5,377.77 to pay the portion of Ms.**

Karr's credit card balance related to initiative related activities. The purpose of the expenditure reported on the Schedule A as "Database development, computer equipment for the campaign."

- 4.99 The total expenditures and reimbursements for office equipment and assets totaled \$17,291.00 between the periods of October 15, 1998-August 16, 2001 according to a PDC staff generated spreadsheet of Equipment and Assets. The \$30 License Tab Initiative, Permanent Offense PAC and Traffic Improvement Initiative Committee purchased the equipment and other committee assets that were included on the spreadsheet. **See exhibit #36.** When asked about the status of the computer equipment purchased directly by the PACs or reimbursed to Tim Eyman by Permanent Offense PAC and Traffic Improvement Initiative Committee, and how that equipment is now being used, Tim Eyman stated the following:

"...well, I guess the best way to put it is that there are combined uses for the various equipment that's there. The one computer is used predominately for Insignia Corporation, but not exclusively. One computer is predominately used for initiatives, but not exclusively. The fax machine was used—you know, complete mixture. The phone bills show a complete mix or, you know, everything together. And just logistically, there isn't a separate office for each one." (Tim Eyman Interview under Oath, Volume I, page 45)

On April 3, 2002, William Glueck submitted the PDC staff generated spreadsheet of Equipment and Assets listed in Exhibit #36, indicating the status of the equipment and assets as identified by Tim Eyman. **See exhibit #37.** Of the 43 items listed, Tim Eyman could only identify the current location of eleven (11) of the equipment and assets purchased \$30 License Tab Initiative, Permanent Offense PAC and Traffic Improvement Initiative Committee. And of those eleven (11) items, at least nine (9) were in Tim Eyman's possession, and the two others were either in possession of Monte Benham or Tim Eyman.

- 4.100 There were a number of direct payments to Verizon Wireless and Airtouch Cellular made by Permanent Offense for phone service. On November 20, 2000, the Traffic Improvement Initiative Committee made an expenditure to Verizon Wireless in the amount of \$368.11. There were at

least four (4) telephone calls listed that were made to three different fraternity houses in Indiana, apparently related to Mr. Eyman's Insignia Corporation watch business.

4.101 Payments were made to vendors for Insignia Corporation using Permanent Offense PAC funds that included the following:

- At least 5 payments totaling \$213.23 were made by Permanent Offense PAC to Winstar, a vendor for Insignia Corporation between May-November of 2001. **See exhibit #38.** Tim Eyman stated that Winstar was the company that provided the email and website for Insignia Corporation. He stated he felt he was using the email "enormously for the campaign", but did not prorate the bill between Permanent Offense PAC and Insignia Corporation.
- On February 5, 2001, Permanent Offense PAC made a \$150.84 expenditure to the Rigby Law Firm. The Rigby Law Firm provided legal services to Tim Eyman and Suzanne Karr in setting up Permanent Offense, INC
- During 2001, at least 2 payments were made totaling \$174.00 by Permanent Offense PAC to digital forest, INC for April and July invoices. **See exhibit #39.** Digital forest, INC is a vendor used by Insignia Corporation.
- Payments were made to Kelly Parke totaling more than \$11,000 for consulting work for Permanent Offense PAC, and the Traffic Improvement Initiative covering at least the period November, 1999-present. Ms. Parke was hired to do the scheduling for Tim Eyman, as well as web site design and maintenance. Ms. Parke also performed work for Insignia Corporation, although it is not possible to ascertain the amount of work she performed that was attributable to Insignia Corporation. See emails listed below.

4.102 On February 18, 2002, Kelly Parke sent an email to Tim Eyman. **See exhibit #40:** (Note-this email was not provided until after the Tim Eyman and Suzanne Karr interviews had already been conducted). The email went on to state the following:

“I cannot honestly bill the PAC account when you and I both know that about half of what I billed was for you. I don’t appreciate being taken advantage of Tim. I guess now is the time to get someone else to help with your Insignia stuff. I only volunteer for Permanent Offense, the political action committee.”

- 4.103 On February 20, 2002, Tim Eyman sent an email to Kelly Parke. **See exhibit #41:** (Note-this email was not provided until after the Tim Eyman and Suzanne Karr interviews had already been conducted). The email went on to state the following:

“I apologize if I was unclear. You’ve done volunteer work for the initiatives and for me at Insignia Corporation. We’ve never had a formal financial arrangement until I contacted you recently to get billed for your services. You sent a bill that had both the initiative stuff and the Insignia stuff combined. I said that the \$1200 was fine but that you needed to drop stuff from the bill for Insignia. That was so the PAC would be billed properly.”

- 4.104 On February 20, 2002, Kelly Parke responded to an email sent by Tim Eyman. **See exhibit #42:** (Note-this email was not provided until after the Tim Eyman and Suzanne Karr interviews had already been conducted). The email went on to state the following:

“To be honest, I’m not so concerned about the amount as I am with accountability. I want to be clear on what services I volunteer...”

“It was when you started asking for more and more (free) help with Insignia—which I did let you know how I felt, at which point you stopped...” “I would have no problem helping someone understand your Insignia account with digital forest, it is tricky at first. But, future work on your Insignia site is billable hourly, monthly or yearly (cheapest). Just let me know what you might need in the way of assistance (page development, technical maintenance, design, graphics/photo scanning, database, marketing, etc.), I will add it to some of the items on that last statement I faxed to you, and then come up with a very, very fair price.”

**Reporting Issues by Permanent Offense PAC and
Traffic Improvement Initiative Committee**

Failure to report in-kind contributions for Professional Services:

- 4.105 Permanent Offense PAC and Traffic Improvement Initiative Committee made payments totaling \$60,616.40 for invoices submitted by Permanent Offense, INC for professional services, accounting and database management, and management and consulting services for the period February-July 2000. There were no additional invoices submitted during 2000 to either Permanent Offense PAC or Traffic Improvement Initiative Committee after the May-July invoice on August 22, 2000. In addition, no payments were made to Permanent Offense, INC after that date for services rendered, despite the fact both initiatives were on the November 2000 ballot.
- 4.106 When asked why Permanent Offense, INC stopped sending invoices for services and whether Permanent Offense, INC stopped providing services for Permanent Offense PAC or Traffic Improvement Initiative Committee, Suzanne Karr stated that she was **“returning to volunteer status”**, despite the fact that Permanent Offense, INC was a political consulting firm. Ms. Karr further stated that Tim and her continued to work on the campaign like they had normally done, but just the billings had stopped.
- 4.107 No computations are available to quantify the exact amount of in-kind contributions that should have been reported by Permanent Offense PAC and Traffic Improvement Initiative Committee for the professional services, accounting and database management, and management and consulting services for the period August-November 2000. However, a previously referred to exhibit in this report that was produced by Suzanne Karr, explained the formula that she used to produce the invoices billed from Permanent Offense, INC during calendar year 2000. **See Exhibit # 14.**
- 4.108 In her testimony Ms. Karr stated the amounts listed in the billing invoices produced by Permanent Offense, INC for work performed for Permanent Offense PAC and Traffic Improvement Initiative Committee during 2000 was based on 25% of total contributions received for the reporting period, plus 8% of expenditures made for the reporting period. Ms. Karr stated the following in an email dated March 10, 2000, that she sent to Tim Eyman (**see exhibit # 13**):

“This is our first C4 with the Permanent Offense payments, so we will see if we get any flack about it. I have to create some invoices to give to myself to file. I charged 25% of Rev & 8% of expense and then the acctg fees. If you get questioned you can continue to refer them to me. I plan to say that we just got too big to be able to operate on a volunteer basis. We have to create some kind of professional organization if we plan to continue to operate the way we have & that requires money.”

- 4.109 Using those computations, PDC staff took 25% of total contributions received for each month between August and November of 2000, and 8% of expenditures made for each month between August and November of 2000 as reported on the C-4 reports for Permanent Offense PAC and Traffic Improvement Initiative Committee. The following is an estimate of the amount of consulting and fund raising management fees that should have been reported as an in-kind contributions based on those assumptions for services provided to Permanent Offense PAC by Permanent Offense, INC between August and November 2000:

Date	Amount	Purpose
August 2000	\$ 7,576.64	Management/Consulting Fund-raising
August 2000	\$ 1,800.00	Accounting/Database Management
September 2000	\$ 4,384.11	Management/Consulting Fund-raising
September 2000	\$ 1,800.00	Accounting/Database Management
October 2000	\$ 16,846.28	Management/Consulting Services
October 2000	\$ 1,800.00	Accounting/Database Management
November 2000	\$ 3,762.08	Management/Consulting Services
November 2000	\$ 1,800.00	Accounting/Database Management
	\$ 39,769.11	

- 4.110 In addition, services provided to Traffic Improvement Initiative Committee by Permanent Offense, INC between August and November 2000 that should have been disclosed are also estimated as follows:

Date	Amount	Purpose
August 2000	\$ 2,374.00	Management/Consulting Fund-raising
August 2000	\$ 1,800.00	Accounting/Database Management
September 2000	\$ 9,188.80	Management/Consulting Fund-raising
September 2000	\$ 1,800.00	Accounting/Database Management
October 2000	\$ 11,736.54	Management/Consulting Services
October 2000	\$ 1,800.00	Accounting/Database Management
November 2000	\$ 2,849.08	Management/Consulting Services
November 2000	\$ 1,800.00	Accounting/Database Management
	\$ 33,348.42	

(NOTE-the estimated amounts of Management/Consulting Services provided to Traffic Improvement Initiative Committee by Permanent Offense, INC based on contributions and expenditures that excluded more than \$1,000,000 for in-kind contributions from the Washington Citizens for Congestion Relief for paid signature gathering expenses, television, radio and direct mail advertising, and other expenses)

- 4.111 There were seven payments made to Hawthorne & Company by Permanent Offense, INC totaling \$2,035 for accounting services performed in 2001. In addition, there were four payments made to Hawthorne & Company by Permanent Offense, INC totaling \$4,145.00 for accounting services performed in 2001 for Permanent Offense PAC. Permanent Offense PAC failed to report these accounting services totaling \$4,145.00 as an in-kind contribution from Permanent Offense, INC.

Failure to properly report orders placed, debts and obligations:

- 4.112 Suzanne Karr was asked if the Permanent Offense PAC or Traffic Improvement Initiative Committee owed the corporation for those months in which no bills were produced. Ms. Karr admitted that she failed to report the debt, or any other debt incurred by the PAC's as follows:

“I did not enter—like accrue a debt, no I did not make any formal accrual...I just didn’t want to deal with it...I was negligent in accruing any kind of liability for any vendor...I was not nitpicky about accruals like I would have been in a normal accounting system. So for that, you can slap my hands and give me a bad time...I would have the cash to pay the bills, so I was not as picky about looking what was outstanding or what debts the campaign owed as of a particular time, because it was an ongoing situation and we always had the cash.” (Karr Interview, Vol 2 Pages 159 – 161.)

- 4.113 In her testimony Suzanne Karr stated the amounts listed in the billing invoices produced by Permanent Offense, INC for work performed for Permanent Offense PAC and Traffic Improvement Initiative Committee during 2000 was based on 25% of total contributions received for the reporting period, plus 8% of expenditures made for the reporting period.
- 4.114 Invoices were prepared by Permanent Offense, INC and submitted to Permanent Offense PAC and Traffic Improvement Initiative Committee for the period May-July. Permanent Offense PAC and Traffic Improvement Initiative Committee made the payments for these invoices on August 22, 2000. The services were performed by Permanent Offense, INC during the months of May and June in calendar year 2000, and should have been reported as a debt or obligation by Permanent Offense PAC and Traffic Improvement Initiative Committee. **See exhibit #43.** Those debts or obligations should have been reported as follows:

Traffic Improvement Initiative Committee

- The June 10, 2000, C-4 report filed by Traffic Improvement Initiative Committee should have disclosed an obligation owed totaling \$1,800 for Accounting & Database Management services provided in May by Permanent Offense, INC based on previous billings;

- The July 10, 2000, C-4 report filed by Traffic Improvement Initiative Committee should have disclosed an obligation owed totaling \$1,800 for Accounting & Database Management services provided in June by Permanent Offense, INC based on previous billings;
- The C-4 reports filed by Traffic Improvement Initiative Committee for June and July, 2000, should have disclosed an obligation owed to Permanent Offense, INC for Fund raising and Management fees for May and June. The invoice listed Fund raising and Management fees for May-July totaling \$6,295.25, and it is not possible to determine the exact amount that should have been reported as an outstanding obligation.

Permanent Offense PAC

- The June 10, 2000, C-4 report filed by Permanent Offense PAC should have disclosed an obligation totaling \$1,800 for Accounting & Database Management services provided in May by Permanent Offense, INC;
- The July 10, 2000, C-4 report filed by Permanent Offense PAC should have disclosed an obligation totaling \$1,800 for Accounting & Database Management services provided in June by Permanent Offense, INC;
- The C-4 reports filed by Permanent Offense PAC for June and July, 2000, should have disclosed an obligation owed to Permanent Offense, INC for Fund raising and Management fees for May and June. The invoice listed Fund raising and Management fees for May-July totaling \$9,823.61, and it is not possible to determine the exact amount that should have been reported as an outstanding obligation.

4.115 Due to the time constraints imposed by the two 45-day citizen action letters, and the volume of documents submitted by the \$30 License Tab Initiative, Permanent Offense PAC or Traffic Improvement Initiative Committee, it was not possible to ascertain the amount of orders placed, debts and obligations that should have been reported and when. This information was only discovered by PDC during the second interview of Suzanne Karr conducted on March 28, 2002. Based on a limited review, we did discover three invoices for 2000 that should have been reported as an order placed, debt or obligation totaling \$702.20. **See exhibit #44.**

Failure to maintain adequate campaign records:

- 4.116 During 2000 and 2001, Permanent Offense PAC and Traffic Improvement Initiative Committee failed to maintain campaign records to adequately document reimbursements made to Tim Eyman for out-of-pocket expenditures totaling more than \$36,000.
- 4.117 Tim Eyman was reimbursed by Permanent Offense PAC and Traffic Improvement Initiative Committee on numerous occasions for postage, office equipment and supplies, repairs and maintenance on the Lexus vehicle, gasoline purchases, printing and other miscellaneous items. The majority of out-of-pocket expenditures made by Tim Eyman were purchased with a personal credit card, and the only documentation he provided to the campaign was a credit card sales receipt.
- 4.118 In the majority of occasions, there were no postal invoices provided by Mr. Eyman for reimbursements he received from Permanent Offense PAC and Traffic Improvement Initiative Committee for postage costs totaling more than \$13,000. There was no mileage log or events calendar maintained by Tim Eyman for either calendar years 2000 and 2001. In addition, none of the gasoline purchases totaling more than \$3,900, or office supplies totaling more than \$3,400, and numerous other items submitted by Tim Eyman for reimbursement from Permanent Offense PAC were pro-rated.
- 4.119 In early 2001 after Suzanne Karr left, there were no internal controls over the reimbursement process for Permanent Offense PAC. When asked about whether or not the reimbursement process was any different under I-747, Tim Eyman stated:

“...the expense reimbursements were submitted. I would write the check to reimburse and then would submit the itemized list with the receipts to Hawthorne & Company who would look those over and would process the PDC work from that.” (Tim Eyman Interview under Oath, Volume I, page 27)

Other reporting issues:

- 4.120 Permanent Offense PAC transferred \$165,491.78 to Permanent Offense, INC and reported the purpose of the expenditures as Management, Consulting, Accounting and Database Services during 2001. The accounting services were performed by Hawthorne & Company who worked on the WED'S program for filing Permanent Offense PAC reports.

4.121 The only expenditure reported by Permanent Offense, INC for advertising was a payment to KVI radio for advertisements on June 11, 2001 totaling \$2,159.00. Tim Eyman knew the expenditures made by Permanent Offense, INC for advertisements amounted to only \$2,159.00, but reported the higher amounts as in-kind contributions being received by Permanent Offense PAC from Permanent Offense, INC as follows:

- June 11, 2001: Permanent Offense PAC reported receiving a \$15,628.00 in-kind contribution for Advertising for I-747 from Permanent Offense, INC
- July 15, 2001: Permanent Offense PAC reported receiving a \$10,816.00 in-kind contribution for Advertising in favor of I-747 from Permanent Offense, INC

4.122 Permanent Offense PAC did not initially disclose the payment by Permanent Offense, INC to KVI radio for advertisements on June 11, 2001 totaling \$2,159.00, but they eventually submitted amended reports including this information.

4.123 Permanent Offense PAC reimbursed Tim Eyman for at least two political contributions. The following political contributions were reimbursed to Tim Eyman by Permanent Offense PAC:

- A reimbursement check made out to Tim Eyman on June 20, 2000, totaling \$3,771.39, included an out-of-pocket expenditure made by Tim Eyman for a \$500 contribution to the Republican National Committee. Mr. Eyman stated he was a Washington State delegate to the National Convention. It does not appear that this reimbursement was related to initiative business.
- A reimbursement check made out to Tim Eyman on October 26, 2001, included an out-of-pocket expenditure made by Tim Eyman for a cash contribution to the No on I-747 Committee. A Permanent Offense PAC October 26, 2001, reimbursement spreadsheet was attached to an informal receipt written on a No on I-747 remittance envelope, and made out to Tim Eyman in the amount of \$60.00. **See exhibit #45.** The remittance envelope indicated that Tim Eyman had contributed \$150 at a No on I-747 fundraiser held on October 18th.

Other Issues

- 4.124 There were thousands of copies of contributor checks received by the \$30 License Tab Initiative, Permanent Offense PAC, and Traffic Improvement Initiative Committee that were provided to the PDC as part of this investigation. Based on a random review, it appears numerous checks were made out to Tim Eyman personally by contributors, but were deposited and properly reported as contributions received by the \$30 License Tab Initiative, Permanent Offense PAC, and Traffic Improvement Initiative Committee.
- 4.125 In addition, there were at least ten checks made out to “Son of Sam”, and a number of other checks made out to the “Son of 676, I-710, I-711”, and others that also were deposited and properly reported as contributions received by the \$30 License Tab Initiative, Permanent Offense PAC, and Traffic Improvement Initiative Committee. It appears there were a number of contributions received by \$30 License Tab Initiative, Permanent Offense PAC, and Traffic Improvement Initiative Committee that did not get timely deposited within five business days as required. But when the contribution reporting requirements are viewed in its entirety, the \$30 License Tab Initiative, Permanent Offense PAC, and Traffic Improvement Initiative Committee substantially complied with the majority of those reporting requirements.
- 4.126 PDC staff reviewed documents provided by Data Resources that included, in most instances for 2000 and 2001, invoices, postal receipts, and a copy of the advertisement printed for Permanent Offense PAC, and Traffic Improvement Initiative Committee. Data Resources is the primary vendor used by the \$30 License Tab Initiative, Permanent Offense PAC, and Traffic Improvement Initiative Committee to print and mail political advertisements, fund raising letters, petitions, and other brochures. The Data Resources documents were reviewed to verify that expenditures from Permanent Offense PAC, and Traffic Improvement Initiative Committee were for advertising related to I-722, I-745 and I-747, and to determine if any debts and obligations should have been reported as orders placed.
- 4.127 The review determined the majority of expenditures made to Data Resources for 2000 and 2001 from Permanent Offense PAC, and Traffic Improvement Initiative Committee appears to have been timely reported. There were almost monthly payments made to Data Resources by Permanent Offense PAC, and Traffic Improvement Initiative Committee, however, rarely for the exact amount listed on the invoice.

- 4.128 The invoices from Data Resources included the date due and the invoice date, which were almost always the same date, but failed to include the order date. Without the order date, it was impossible to determine if any of the orders placed with Data Resources should have been reported on a Schedule B to C-4 Report, Part 3 as a debt or obligation by Permanent Offense PAC, and Traffic Improvement Initiative Committee.

Respectfully Submitted this ____ day of April, 2002.

Kurt Young
Chief Political Finance Specialist

List of Exhibits

Exhibit #1: February 6, 2001, Public Disclosure Commission complaint filed against Permanent Offense PAC, Permanent Offense, Incorporated, Traffic Improvement Initiative and Tim Eyman

Exhibit #2: February 13, 2001, citizen's action (45-day letter) filed by Richard A Smith and Knoll Lowney, two attorneys representing Permanently Offended against Tim Eyman, Karen Eyman, Suzanne Karr, Permanent Offense (the political committee), Permanent Offense, INC, Traffic Improvement Initiative Committee Monte Benham, Mike Fagan, and Jack Fagan.

Exhibit #3: Committee Registration Statement (PDC Form C-1pc) filed by the \$30 License Tab Initiative in 1999.

Exhibit #4: Committee Registration Statement (PDC Form C-1pc) filed by the Traffic Improvement Initiative.

Exhibit #5: Committee Registration Statement (PDC Form C-1pc) filed by Permanent Offense PAC.

Exhibit #6: Amended Committee Registration Statement (PDC Form C-1pc) filed by Permanent Offense PAC on February 10, 2001, listing Karen Eyman as treasurer and Tim Eyman as campaign manager.

Exhibit #7: Amended Committee Registration Statement (PDC Form C-1pc) filed by Permanent Offense PAC on February 14, 2002, listing new officers.

Exhibit #8: PDC produced spreadsheets of five archive boxes of subpoenaed documents Suzanne Karr delivered to PDC staff for the Traffic Improvement Initiative Committee, Permanent Offense PAC, Permanent Offense, Incorporated, and the \$30 License Tab Initiative

Exhibit #9: December 16, 1999, email sent by Suzanne Karr to Tim Eyman regarding Permanent Offense, INC.

Exhibit #10: January 2, 2000, email sent from Suzanne Karr to Tim Eyman.

Exhibit #11: January 30, 2000, email sent from Tim Eyman to Suzanne Karr.

Exhibit #12: February 18, 2000, incorporation papers filed by Permanent Offense, Incorporated, and the initial Annual Report of Permanent Offense, INC dated February 29, 2000.

Exhibit #13: March 10, 2000, email sent from Suzanne Karr to Tim Eyman.

Exhibit #14: WED'S printout of PDC reports for Traffic Improvement Initiative used to determine amounts invoices by Permanent Offense, INC during 2000.

Exhibit #15: August 3, 2000, engagement letter from Hawthorne & Company to Tim Eyman regarding Permanent Offense, INC

Exhibit #16: On September 5, 2001, Tim Eyman and Permanent Offense PAC submitted a one-page memorandum and worksheet as an amendment to previously filed C-4 reports.

Exhibit #17: September 21, 2001, email sent from PDC staff to Karla Grogan.

Exhibit #18: On September 21, 2001, Permanent Offense PAC submitted additional information requested by PDC staff.

Exhibit #19: January 24, 2001, Debit notification memorandum from Bear, Stearns Securities Corp. to Tim and Karen Eyman regarding the transfer of \$60,000. (**Fictitious document**), and September 24, 2001, Debit notification memorandum from Bear, Stearns Securities Corp. to Tim and Karen Eyman regarding the transfer of \$60,000. (**Actual document**)

Exhibit #20: September 27, 2001, email from PDC staff to Tim Eyman and Permanent Offense PAC requesting additional information be provided.

Exhibit #21: October 4, 2001, letter from PDC staff to Tim Eyman and Permanent Offense PAC requesting additional information be provided.

Exhibit #22: October 10, 2001, letter from Tim Eyman and Permanent Offense PAC responding to PDC request for additional information.

Exhibit #23: October 2001 invoice from the PSI Group, INC in Seattle Washington and addressed to Tim Eyman and Insignia Corporation.

Exhibit #24: A handwritten ledger entry maintained by Hawthorne & Company, and provided to the PDC.

Exhibit #25: December 5, 2001, email from Dave Hawthorne to Tim Eyman.

Exhibit #26: December 5, 2001 1:56 PM, email from Dave Hawthorne to Tim Eyman

Exhibit #27: January 2, 2002, faxed document sent from Jennifer Sisson with First Allied Securities to Karla Grogan, with Hawthorne & Company.

Exhibit #28: January 3, 2002, email sent from Dave Hawthorne to Tim Eyman.

Exhibit #29: A February 3, 2002, Seattle Post-Intelligencer article written by David Ammons, a reporter with the Associated Press entitled *Eyman admits taking campaign cash as salary*.

Exhibit #30: PDC staff generated spreadsheet detailing all reimbursement made to Tim Eyman by the \$30 License Tab Initiative Permanent Offense PAC, Traffic Improvement Initiative Committee covering the period of December 11, 1998- November 30, 2001.

Exhibit #31: Spreadsheet maintained by Suzanne Karr for Permanent Offense PAC, and Traffic Improvement Initiative listing reimbursements to Tim Eyman for out-of-pocket expenditures covering the period November 1999 through December 2000.

Exhibit #32: December 28, 2000, email sent from Suzanne Karr to Tim Eyman.

Exhibit #33: February 1, 2001, email sent from Suzanne Karr to Tim Eyman.

Exhibit #34: A postage receipt dated July 9, 2001, that was submitted by Tim Eyman for reimbursement.

Exhibit #35: Handwritten document prepared by Tim Eyman, comparing Insignia Corporation mailing costs, and the vendors used and amounts for the years 1999, 2000, and 2001.

Exhibit #36: PDC staff generated spreadsheet of Equipment and Assets purchases by the \$30 License Tab Initiative, Permanent Offense PAC and the Traffic Improvement Initiative for the period October 15, 1998-August 16, 2001.

Exhibit #37: On April 3, 2002, William Glueck submitted the PDC staff generated spreadsheet of Equipment and Assets listed in Exhibit #36, indicating the status of the equipment and assets.

Exhibit #38: Invoices from Winstar, a vendor for Insignia Corporation between August-November of 2001 to Permanent Offense PAC.

Exhibit #39: Invoices from digital forest, inc. dated April and July.

Exhibit #40: February 19, 2002, email sent from Kelly Parke to Tim Eyman.

Exhibit #41: February 20, 2002, email sent from Tim Eyman to Kelly Parke.

Exhibit #42: February 20, 2002, email sent from Kelly Parke responding to Tim Eyman.

Exhibit #43: Invoices prepared by Permanent Offense, INC and submitted to Permanent Offense PAC and Traffic Improvement Initiative Committee for the period May-July.

Exhibit #44: Three invoices from vendors of Permanent Offense PAC for 2000 that should have been reported as an order placed.

Exhibit #45: Permanent Offense PAC October 26, 2001, reimbursement spreadsheet for Tim Eyman, and informal receipt for a contribution made by Tim Eyman and written on a No on I-747 remittance envelope